Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1919.

The Steel Strike.

THE steel strike is the culmination of an attempt by the radical wing of the American Federation of Labor to extend its authority over the employes in that industry. The move began with sending professional organizers among tne employes to work up discontent and antagonism against the employing companies. The Mayor of McKeesport has decribed the proceedings as follows:

> For some time organizers having no connection with the workers of McKeesport, but coming to it from outside of the city, have been endeavoring to unite mill workers into the observance of a strike, using for that purpose inflammatory arguments, seditious language, threats and misleading statements. Their work has been directed mainly among foreigners now working here, little, if any, support being granted them by Americans and by the better class of workers of foreign descent.

The type of these strike-leaders is revealed by a sample extract from a book on "Syndicalism," of which Earl C. Ford and William Z. Foster appear as joint authors. Foster is in general charge of the strike in the Pittsburg district. The following extract is no worse than the general tenor of the book:

> In his choice of weapons to fight his capitalist enemies, the Syndicalist is no more careful to select those that are "fair," "just" or "civilized" than is a householder attacked in the night by a burglar. He knows he is engaged in a life and death struggle with an absolutely lawless and unscrupulous enemy, and considers his tactics only from the standpoint of their effectiveness. With him the end justifies the means. Whether his tactics be "legal" and "moral" or not, does not concern him, so long as they are effective. He knows that the laws, as well as the current code of morals, are made by his mortal enemies, and considers himself about as much bound by them as a householder would himself by regulations regarding burglary adopted by an association of house-breakers. Consequently, he ignores them insofar as he is able and it suits his purposes. He proposes to develop, regardless of capitalist conceptions of "legality," "fairness," "right," etc., a greater power than his capitalist enemies have; and then to wrest from him by force the industries they have stolen from him by force and duplicity, and to put an end forever to the wages system. He proposes to bring about the revolution by the general strike.

T. J. Vind, president of the Council of steel unions in the Chicago district, at a public meeting last week in support of the strike said: "I was one of those who believed that we had no business going into the war and fought to keep us out of the war."

Another member of this committee, selected to unionize the steel industry, is Frank M. Ryan, who as President of the Iron Workers' Union was convicted of complicity in the dynamite outrages at Los Angeles and sent to the penitentiary. Having completed his term of seven years, the longest sentence given any of the criminals in that celebrated case, he is again active in his industrial efforts.

These agitators, having carried their campaign far enough to have some basis for the claim that they represented employes, then applied to the officials of the companies for a conference. The latter, not being favorably impressed by the steps taken, or with the promise of good results from having these parties participate in the management, declined to confer, whereupon the union officials gave out that there was no possible course for them to pursue but to shut down the steel industry if they could. This they have been trying to do, regardless of the far-reaching interruption of industry which would result outside of the steel industry.

Radical Leaders Forced the Strike.

The statement of the labor leaders that they were forced into this strike, that they had no alternative, is in conflict with the facts of common knowledge. They were clearly the aggressors. They disturbed a status in which there had been no change for many years, except changes that were favorable to the employes. Moreover, existing conditions are very favorable to the employes. Wages have been increased since 1914, by about 130 per cent., which is more than the increase of living costs by any authoritative calculation. The lowest rate of pay for unskilled, inexperienced employes of the United States Steel Corporation is 45 cents per hour, and the average actual earnings for all the Corporation's employes, exclusive of officials, salesmen and salaried office force, for the month of December, 1918, after the last advance went into effect, was $6.23 per day. There have been no reductions since. The employes of the steel industry were

conspicuous in the class of wage-earners who had profited by the war, as contrasted with many thousands of people in other occupations whose pay or income has not been increased at all, or not enough to meet the increase of living expenses.

Importance of Production to the World.

Industry has been in turmoil as a result of the interruptions caused by the war. There is great distress over the world from a scarcity of the necessaries of life. So good an authority as Mr. Hoover says that there is yet danger of a loss of life far greater than what has occurred. There is need for iron and steel for the tools and machinery of production, for ships and cars, and the general restoration of industry. Society is in the midst of a great emergency, facing not only want, but menacing forces of disorder, and needing the aid of all sober-minded, patriotic citizens. The President made an appeal to the railroad employes which was broad enough to include all classes, for patience and cooperation while the Government gave its best efforts to stabilize conditions. The railroad men responded, and the President then appealed directly to the labor leaders who were contemplating this strike, asking that they postpone it until after the meeting of the Industrial Conference which he had called to meet October 6th.

No Necessity of the Time.

It is under these conditions that radical leaders have forced this strike. They were under no necessity of acting at this time. There was no critical situation. The men had lived under open shop conditions for many years, and might have lived under them at least for a time longer. No issues have arisen which the strikers have not created themselves, and at a time when they were more favorably situated than at any other time in the history of their industry, and above almost every other class of wage-earners in the country. Evidently the strike managers have looked upon the critical state of world affairs without any interest in the common welfare or any sense of responsibility as citizens, but as affording an opportunity for them to secure further advantages under the threat of increasing the disorder.

The Distrust of Radical Leadership.

This indifference of the strikeleaders to public interests affords the best explanation and justification of the unwillingness of the steel companies to place the Federation of Labor in a stronger position within the industry. That is the long and short of their opposition. They distrusted the leadership which aspired to divide management with them. They were afraid that power placed in its hands would not be exercised with a proper sense of responsibility and the organization leaders have suppiled the proof that the fears were well-founded.

The strongest friends of organized labor must recognize that there is ground for this unwillingness on the part of employers to have their works pass fully under the control of the organizations. There are too many instances of the arbitrary, unreasonable exercise of power, of foolish conflicts between unions and of restrictions and hindrances to efficient operations, for employers to welcome the complete unionization of their establishments, and co-operate to accomplish it. We gave last month an account of the troubles of the Assistant Superintendent of Markets in New York City in trying to get the Government food supplies moved across the city to the school houses, in an effort to distribute them by sale at the lowest possible cost. The story he told of vexatious union regulations is a common one.

Attitude of Organized Labor Toward Profit Sharing.

The United States Steel Corporation has sought to interest its employes in the business upon the most practicable of all profit-sharing plans, to wit: as stockholders. Over 60,000 have bought stock under its liberal arrangement. The radical wing of the Federation of Labor opposes and ridicules the purchase of stock by employes, and indeed all other plans which are calculated to create a co-operative relationship between owners and employes. Their policy is to have two distinct camps, with no relationship between them except through the union officials.

Public Interests Must Govern.

The lesson must be repeated over and over again that individuals and organizations seeking to forward special interests are bound to be governed by proper regard for the general public interests. Employers and business organizations must do so and organized labor must recognize the same obligation. Individuals and groups must forward their own interests by means which serve the common interests, as the farmer increases his income by increasing the yield of his farm. No business is legitimate or has any right to protection or tolerance unless its methods and its success promote the general welfare. The public is interested in the great industries because they supply the common wants, and both employers and employes are expected to follow policies that are just from the public standpoint and favorable to the progress and efficiency of the industry. Organized labor, instead of trying to force itself into power would do better to try to win its way by demonstrating how it can supply wise leadership and promote efficiency, order and co-operation in industry. The general rule for success is that individuals and organizations must win their advancement by developing qualifications for the tasks they aspire to, and that until they can demonstrate that they have them they must expect plenty of criticism and opposition.

Organized Labor's Achievements.

Everybody concedes the right of labor to organize and opposition to the organizations is due for the most part to abuses which are harmful to labor as well as to the rest of the public. On the whole the real interests of labor cannot be in conflict with the interests of the public as a whole. It is a perfectly safe rule for labor, as well as a just rule, that whatever promotes the efficiency of industry, increases the production of common necessaries and comforts, and advances the general welfare, shall govern.

The proper function of labor organizations is to protect the individual worker from an abuse of power by the employer and to promote the welfare of a trade by just consideration of its deserts as compared with all the other trades. The compensation of the worker comes to him first in money but finally in the products of other workmen, and it is important therefore that a fair relationship shall exist between the several groups of workers. This is best maintained by conditions of free movement into all the trades.

What Has Raised Wages.

It is a great mistake to claim that the general advance in the position of labor in the last fifty or more years has been due to the labor organizations. The general level of "real wages," by which is meant the purchasing power of wages, is only slightly affected by the organizations. A single trade by being highly organized may push its wages above the common level, at the expense of the other members of the community, who for the most part are also working people. But if all wages are pushed up, without an increase of production, the cost of living for everybody will rise correspondingly. The great factor in the rise of wages has been the improvements in industrial methods, in organization, equipment, and means of transportation which have increased production. These and not the power of labor organizations have accomplished the difference between wages in China and in the United States, and unfortunately, the labor organization more often than otherwise have opposed the introduction of labor-saving improvements.

Capital Cannot Exploit Labor.

There is great misapprehension as to the power of capital to exploit labor. An individual employer may pay less than the normal wage, although it is almost certainly a mistaken policy to do so, but whatever the profits upon capital may be the owners will naturally want to invest them, and their efforts to do so will enlarge the demand for labor and increase wages. Furthermore, there are no investments for capital except in producing something for the public market, and unless the purchasing power of the masses of the people increased to correspond with the increased production, industry would come to a standstill, and there would be no use for new capital. There is an inevitable competition between the new capital always coming on the market and all the old investments.

The Economic Law of Distribution.

So long as capital increases faster than population, and faster than the labor supply, there is bound to be an increasing demand for labor which moves the wage-rate gradually upward; and at the same time there is going on an increase and improvement in the machinery of production which gives a constantly increasing output of commodities per head of population. This is the economic law which distributes the benefits of industrial progress to the masses. It is inevitable in its operations, not depending upon the benevolence of employers on the one side or upon strikes or labor organizations on the other. Organized labor can co-operate with it by assisting production or interfere by restricting or embarrassing production. The latter, unfortunately, from ignorance of labor's own interests, is the course too often followed, and as long as this is the case there will be opposition to an extension of its power over industry. The most intelligent labor leaders understand this, but they have a fight on their hands much of the time to retain authority, and are often unable to control policies.

Labor's Increasing Share.

There is a natural and definite relationship between the growth of capital and the rise of wages. They move along together, and neither can go forward without the other.

For this reason qualification must be made to the prediction commonly uttered just now, that hereafter labor is to have a larger share of the industrial product than heretofore. If the product is increased this will be true, for labor has always had an increasing share of an increasing product, but if the share of labor is to be increased by cutting down the amount available for the improvement of the industrial equipment, industrial progress will be retarded, and if population increases faster than production society will retrograde.

Final Distribution of Product.

One of the most comprehensive of recent studies of the distribution of the social income is that entitled "Wealth and Income of the People of the United States," by Professor W. I. King, of the University of Wisconsin. It appears in book form in "The Citizen's Library of Economics, Politics and Sociology," a series edited by Dr. Richard T. Ely, the veteran and honored head of the Department of Economics of that University, a state educational institution of high rank, and recognized to be of liberal and progressive spirit.

Professor King recognizes the growth of productive power which results from the accumulation of capital, and sums up his conclusions as follows:

"After all reasonable allowances have been made, the fact remains, practically, that, beginning with 1870, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last half century. It seems improbable that any other great nation has ever experienced such sweeping gains in the average income of the inhabitants. It has, almost necessarily, been accompanied by a great rise in the standard of living."

* * *

"Of late, we have had a period of 'muck-raking' in which all things that exist have been pictured as very bad and growing worse. The misery of life, the difficulty of making both ends meet, has been over-emphasized. True, it is just as difficult to secure the articles required by our standard of living as it ever was. But our standard of living has grown more expensive. Increases in quality cost even more than increases in quantity. Our wants always have and probably always will increase with our ability to satisfy them, so that there is never any hope of winning the race with our standard of comfort. Such a race is just like chasing one's shadow. Nevertheless, to the present author, a larger per capita supply of economic goods appears to be a most distinct benefit to any nation, and the United States has been greatly favored in this line during the last sixty years."

* * *

"The period 1850-1900 saw that come to pass in the United States which the English economists of the earlier nineteenth century deemed impossible—the improvement of the workingman's economic welfare to the extent that he was lifted out of the conditions formerly thought inseparable from a working life. He tasted the cup of learning; he experienced the joys of leisure and entertainment; and he so limited the size of his family as to enable his children to continue to secure these advantages. Larger income and more learning naturally brought more power and secured more respect. The army of labor became an ally to be courted or an enemy to be feared."

Wages Get Eighty Per Cent—Capital Twenty Per Cent.

After a careful discussion of the division of the national income among all classes, Dr. King reached the conclusion that if all rent, interest and profits were added to wages the sum of the latter would not be increased by more than one-fourth. He says:

"It would seem improbable that, with our present national productive power, any feasible system of distribution could increase the average wage-earner's income in purchasing power by more than one-fourth, and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would at least, work no startling revolution in the condition of the employees of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the Classical Economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her storehouses."

This addition of 25 per cent. to wages which Professor King calculates to be the utmost that might be theoretically made, if all rents, interest and private profits were confiscated, would leave nothing for improvements and additions to the present industrial equipment, except the savings from wages, and nobody supposes that the additions would be nearly all saved. Experience shows that wage increases are commonly spent, and are wanted for that purpose. Evidently there would be a large diminution of available capital for continuing the development which Professor King says has brought such benefits to the masses in the last fifty years. Moreover, the attempt to confiscate all rents, interest and profits, would throw industry into such confusion that in all probability there would be no more to divide here than there is in Russia, and the returns to the wage-earning would be less than they are now.

Suggestion for the President's Conference.

The above statements from Professor King's book open up the present industrial and social controversy to the very heart. If the facts and reasoning which he offers are sound, nothing else is so important as general public knowledge of them.

President Wilson has called an Industrial Conference to meet in Washington in a few days from now to consider the present state of industrial unrest and confusion, and submit recommendations, presumably as to public policies to be followed. When people come together to reconcile divergent views, the best thing to be done at first is to find out where and why their views diverge, and to arrive at the very truth about the state of affairs in controversy.

If Professor King's views are sound, and economists generally agree with him, there is a vast amount of exaggeration in current representations about social injustice, and neither the Government nor the leaders of industry should be hurried into action on the strength of these false views. When great clamor for immediate action is made there is grave danger that imprudent action will be taken.

If Profesor King is right there is no occasion for clamor or excitement. It is true that the orderly processes of industry have been disturbed by the war, but if in their normal action they yield satisfactory results, nothing is required but earnest, harmonious work to restore and enlarge production.

If Professor King's views were generally accepted the tone of public discussion would be entirely changed, controversy and recrimination would subside, the attitude of wage-earners toward their work would change, and the production of everything required for the common comfort and welfare would rapidly increase.

Investigate the King Figures.

It would seem that the best thing the coming Conference can do is to take steps to have an investigation into the validity of Professor King's conclusions. The Conference probably will not be able to undertake such an investigation, but it can recommend the creation of a competent body, which should be composed of

impartial persons trained to economic research and familiar with the sources of such information. The labor organizations have men who have been associated with them and in whom they have confidence who might be properly included in the membership. Their first duty will be the scientific determination of the truth as to what has been the final destination of the national income during the period covered by Professor King's inquiry. What is the truth about the statement often seen that two or three per cent. of the population absorb to themselves more than one-half the national income? Let us have an investigation that will afford an authoritative answer to these questions.

Farmers and Wage-Earners.

We have received numerous letters similar to the following, which presents the farmer's interests in the industrial situation so well that we give it entire. All that it says about the low compensation of the farmer as compared with workers in the town industries has been true much of the time in the past. We believe, however, that the situation had been measurably corrected in the ten years preceding the outbreak of the war. The price of foodstuffs and clothing materials are now on an abnormal basis and so are wages in many of the industries. The whole price and wage structure should be lowered as nearly simultaneously as possible. Farm products will come down, because they cannot be artificially sustained, and it remains to be seen whether the farmer will get a reduction on what he has to buy. A large decline in important farm products has occurred in the last two months, but the town wage-earners are still engaged in trying to push their wages higher. In the long run equity must rule, and we commend this letter to careful consideration. The essential truth to be absorbed is that the situation is not one of a struggle between capital and labor but between groups of producers. When this is fully comprehended a start will be made toward consideration without prejudice:

Amarillo, Texas, August 11, 1919.

Gentlemen:

I have read for the last two or three years your monthly bulletin and I always find it of much interest. I have watched carefully what you have said the past several months with reference to wages, labor conditions, cost of living, etc. On page 7 of your August bulletin you say:

> "What is wanted above everything else to relieve the strain under which society is laboring all over the world is normal supplies of food and clothing materials."

and a little further down you say:

> "We have held consistently that a decline in foodstuffs, which constitute the largest item of living costs, must lead the way in any movement of lower wages and general prices."

I have lived for a great many years in a farming country where production of both clothing materials and foodstuffs have been the principal occupation, outside of a few towns where railroad labor makes up a good part of the population. It is my opinion that had the farmer worked the same number of hours and received the same rate of pay as railroad employees, building trades employees, miners and other similar laborers who are usually well organized, that the cost of foodstuffs and clothing materials for the past twenty years would have been far in excess of the prices that have prevailed.

Take for instance the cotton farmer; in a vast majority of instances he labors from 12 to 16 hours a day and in addition to his own labor is that of every child who is large enough to go into the field, and added to this often is the labor of his wife for several hours a day when she is not busy with cooking and other household duties. This child and woman labor has never been looked upon as a part of the cost of production. The same things apply to a greater or less extent to raising wheat, corn, cattle and farm products generally.

It is my opinion that because these foodstuffs and clothing materials have been produced in this way that the price of them has been such that what we term organized labor has been able to provide the necessities of life by working much shorter hours than the farmer.

It seems now for the first time farm labor is beginning to demand pay something in keeping with other laborers; for instance this year for the first time harvest hands in this section are being paid by the hour instead of by the day and are getting 50 cents an hour, and in some instances more, together with their board and lodging. The harvesting, especially of the grain crops, forms only a small part of the labor connected with the crop and even at this time farm hands generally who are working regularly all year through are being paid far less than what we generally call union labor, such as railroad employees, miners, etc., and work longer hours.

If the farm laborer is to come in for the same hours of work and rates of pay that organized labor is now getting I cannot see how foodstuffs and clothing materials can be produced even with most favorable crop conditions for as low prices as are being paid for these items today.

I can see no reason why because farm labor is not organized it should not be paid as well and have as favorable hours of work as the so-called organized laborers. Many of the latter call themselves skilled laborers and in a sense they are, but any capable farm hand in this day of farming with machinery is as much entitled to be classed as a skilled laborer as the average organized worker and in many cases it takes far more knowledge and judgment to do farm work than it does to be a first class workman in the average trades.

Where in your opinion would the cost of living go if all farms and ranches were owned by corporations and worked by union labor on the lines that coal mines, railroads and other institutions using organized labor are now operated?

Yours truly, EARL COBB.

General Business Conditions.

General trade and industry holds up well, despite various menacing influences, such as the policeman's strike in Boston, steel strike, ominous reports from the coal miners, threatened curtailment of foreign trade, high industrial costs, etc. Bank clearings are running ahead of last year at an astonishing rate. For the week ended September 13, the "Commercial and Financial Chronicle" reports for all clearing houses an increase of 26.3 per cent.

over last year, and for the large centers a higher rate. This is confirmed by the reports to the Federal Reserve Board, which in a comparative statement for the same cities for the weeks ending September 17, 1918, and September 18, 1919, show aggregates of $6,313,356,000 and $9,734,351,000, respectively, or an increase of approximately 50 per cent. Higher prices are a factor in this but probably the shift of industry from Government orders to miscellaneous private business is a larger one. Railroad traffic is very heavy, with a shortage of equipment and earnings larger than a year ago. The railroads will make up in the last half of the year some of the deficit in rentals of the first half.

Free Buying.

The buying power of the population is large and there is no reluctance to use it. On the contrary there is a mania for spending, which taken in connection with the curtailment of production in many lines causes a scarcity of goods, and makes the high prices which everybody complains of but which apparently affect nobody's purchases. Travel is very heavy, hotels are crowded, although charges have been everywhere advanced. The demand for silk stockings, and fine underwear and jewelry is beyond anything in the past. The sales of bar gold by the United States Assay Office, New York, to manufacturing jewelers, in the first six months of 1919 amounted to $26,919,078 against $15,377,628 in the first six months of 1914. All this is not the luxurious living of an aristocracy of wealth, but free spending by the great body of the people.

Rise of Prices Checked.

A check has been given to the rise of prices, and although the Government's campaign has made no great showing in concrete results it has had an effect in giving direction and force to public opinion. The demands of the railroad brotherhoods and statements by the President helped to make up the public mind that the crazy cycle of rising wages and prices had about reached the limit. The whole industrial situation was headed for chaos.

The threats of Government prosecution doubtless inclined some holders of foodstuffs to let go, and the sales of large Government stores was a more important influence, but a weakening of the foreign demand and an improvement in the corn crop were still more important. The fall of exchange rates has made the prices which appear high in this market still higher to foreign consumers. Moreover, the foreign crop of grains is now available, and ships are rapidly conveying the stores of Australasia and Argentina to England. Packers' sales abroad have declined and prices of provisions and hogs have been affected thereby. Hogs are down $4 to $7 per hundred weight from the top. Corn has had a decline of about 65 cents per bushel from the top, which shows how easily prices can come down when sentiment shifts. Cotton is down about 5 cents per pound.

The markets are all more quiet since the conclusion seems to have been reached that further advances were intolerable. It has been demonstrated that the best treatment for them when they show symptoms of going wild is resolute abstention from buying.

Uncertain Factors.

The higher costs are made, and the more disturbance there is in industry, the closer business men will keep to shore. The heavy taxation upon profits makes them disinclined to take any chances.

The foreign trade situation is approaching a more precarious stage, although August exports at $646,000,000, were $76,000,000 greater than in July, and imports at $308,000,000 were $35,000,000 lower. The feeling nevertheless, is, that without more organization for the granting of credits this trade will not be sustained, and that any falling off will bring a lower price level in this country.

The wise policy for the labor organizations to pursue is to quit their policy of trying to push wages higher, and make a study of how to hold the wage rates they have gained, looking for future gains to an increase in the purchasing power of the dollar. They should look now to increasing production. They should look after their position as consumers. They should seek to co-operate with employers in accomplishing a reduction of the costs per unit of product to what they were before the war. If they can achieve this their new wage rates will be secure and represent real gains—a real increase of command over the necessaries and comforts they want. Otherwise they are chasing shadows, and may disorganize industry to such an extent that many of their number will be out of employment and the cost of living will rise faster than wage advances to the others.

The Labor Situation.

The iron and steel industry was running close to capacity and with excellent prospects for some time to come, when the trouble-makers decided to interfere. If the industry is tied up for months it will have the effect of shutting down work in many lines all over the country, cause a great amount of unemployment, and have an effect upon trade. The wage-earning class inevitably will suffer the heaviest loss. The thinking workmen know it, but there are misguided ones who believe that if only the suspension of work can be carried far enough to completely paralyze the indispensable industries and services victory is assured. Hence the fascination of the idea of "one big union."

They do not seem to recognize that the greater the paralysis, the greater and the more unendurable the disaster will be to the whole body of the people, and the more certain that the schemes of wreckers will fail. The idea is about as rational as for a mutinous crew to burn up their own ship in mid-ocean to get rid of the officers, who would perhaps number one to ten of the crew. It is true that a similar folly has been committed in Russia, and brought upon the common people a calamity unparallelled in the history of the world, but it has been accomplished there by the power of a small minority over an unorganized and inert mass, and there is no reason to believe that the majority can be over-run in that manner in the United States. The public will put up with individual strikes, and endure great inconvenience to allow of their being fought out, but that is upon the theory that large freedom of action is best. If, however, it comes to a clear issue of ruin to the social order, general starvation and anarchy, the conspiracy will fail from the reaction which it would create.

The steel strike, although deplorable, is reassuring in its influence because it has served to show that the American workmen as a rule are sound at heart and in their purposes, and have no intention of joining revolutionary movements.

Boston Police Strike.

The Boston strike of the police had a like wholesome effect, calling out such a decisive expression of public opinion as to inspire confidence. President Wilson voiced the practically unanimous opinion of the country when he pronounced it "a crime against civilization." That is the precise term for it. Civilization depends first of all upon the preservation of law and order, so that the calm, free judgment of each citizen may be taken in determining social policies. There can be no backward step from this principle, that policies must be determined through the ballot-box, and that organized society must have the power to rule over the mob.

The lesson throughout is that there is no issue between classes in these controversies. It is a question of maintaining order and production in society, and the wage-earning class has just as big a stake in that as anybody. If railroad traffic is summarily suspended, and food cannot be delivered in the cities, or industries are compelled to suspend, the wage-earning population suffers more than anybody else, for there are more of them to suffer. Everything that disorganizes industry, impairs its efficiency and reduces production is directly harmful to labor. The class which has most to gain from the steady and efficient operations of industry is the wage-earning class.

Financial Affairs.

The money market in September was marked by a continuance of the ease which developed in August, although normally crop-moving demands are expected to tighten up the situation at this time. Call money got as low as 4 per cent., and ruled around 5 to 6 per cent. a good share of the month. Time money ruled at 5 to 6 per cent. with commercial paper at 5 to 5½. Commercial paper brokers reported an improved demand, and that the bulk of the offerings were taken on a 5½ basis. The market for acceptances and commercial paper was helped by the redemption of Victory loan certificates, reduced offerings of new certificates and the low rates ruling for call money.

Treasury Borrowing.

The money situation has been favorably influenced by the optimistic statements of the Secretary of the Treasury as to prospective receipts and disbursements, and the apparent success of his effort to reduce the interest rate on future issues of certificates. The Treasury has over $1,400,000,000 of cash and the settlement of war contracts has reached a stage where balances of this size need not be maintained. Subscriptions to the 4¼ per cent. Treasury certificates maturing March 15, and the 4½ per cent. certificates maturing September 15, 1920, both issues receivable for taxes, were closed September 10, with about $750,000,000 subscribed. The offering without apportionment was a success, and the 4½s have been quoted at a slight premium. The Secretary announced that there would be no further offering before October 15, and that offerings probably would not be for more than $250,000,000. With the requirements of the Treasury thus reduced, the outlook is for easier conditions this fall than had been anticipated.

Outlook for Fiscal Year.

There is an apparent conflict between the calculations of the Secretary of the Treasury and those of Mr. Good, Chairman of the House Committee on Appropriations, as to the outcome of the Treasury in the current fiscal year. The Secretary holds that income and outgo will about balance while Mr. Good predicts a deficit of about $3,500,000,000. The difference between these two authorities is possibly due to the Treasury certificates amounting to about $3,600,000,000 which were outstanding at the beginning of this fiscal year. If they are paid out of the revenues of the year there will be a deficit of about that amount, but if no account is taken of them, income and disbursements will about balance. In either case it appears that the Treasury will not have to go to the money market except in refunding operations, which release as much money as they require. It will be a great gain over condi-

tions in the last two years to be assured of this. The Secretary and Mr. Good are both entitled to public approval for insistance upon the necessity for the utmost economy in public and private expenditures.

Gold Movements.

The total payments in gold of the German Government to the United States Food Administration have amounted to $158,000,000, part of which has reached London and the remainder is in Belgium and Holland. As fast as it reaches the Bank of England it is apportioned among the Federal reserve banks, and will swell their reserves. Incidentally we would remark again that it is not needed there, and will be as dead as it was in the mine. It is a pity to take gold from Europe, and from Germany, when needed there so much to give confidence and stability as the basis of credits. Interest-bearing securities would serve our purposes better. But this is merely one phase of the problem involved in our relations to Europe.

Approximately $5,000,000 of South African gold has been reported as bought in London for America, but no arrival here has been reported. It is logical to expect a steady stream not only from South Africa but Australia and the other producing regions. London cables represent that even the gold producers of India are negotiating for the privilege of selling their product in the best market, which is the United States. The situation is not created by the needs of the United States, but by the great demand in other countries for means of payment in the United States. The gold producers will ship the metal to the United States and sell the exchange thus created in the markets of the world.

All the streams of gold are headed for the United States, where the influence will be to raise prices higher and higher above the world markets until the trade balance is turned against us. It is an illustration of nature's struggle to correct abnormal conditions and to restore the normal equilibrium.

Foreign War Debts.

Somebody has set afloat the idea that a proposal is pending to have the United States guarantee the war debts of its allies. Various suggestions have been afloat in Europe looking to a considerable credit in which the allies and perhaps some of the neutral nations would participate, for purposes of rehabilitation. One of the proposals has included the Teutonic powers. Some of them have proposed an apportionment of the war debts. None of these proposals, apparently, has been given consideration by the authorities. The finance minister of Australia has been in London with a proposal to consolidate the war debts of the British Empire, but the newspaper comments indicate that the plan has not met with favor.

From time to time the suggestion has been made, in this country perhaps more than in Europe, that the United States could afford to forgive and cancel the loans that have been made by the Government at Washington to the allied governments.

None of these suggestions have been made formally or by any one in authority, and there is no reason to suppose that any considerable number of people have given them serious thought. The most practical and helpful acts that it is feasible for the United States to do for the assistance of Europe, is, first, to add the accruing interest upon the European obligations to the principal for a number of years, until the industries of those countries are fully recovered from the war; and, second, to increase the sum of the credits, by loans in the public market, to aid them to obtain necessary supplies and equipment and so hasten their recovery.

Europe Not Bankrupt.

If the industries of Europe are restored and modernized, and industry makes the same rate of progress in the next 25 years that it made from 1890 to 1914, these public debts will grow rapidly smaller in relation to the productive power of the countries. This is the relief to anticipate. They will be able to pay their debts to the United States and never miss the wealth, if they can have time to first build up their productive organization. But most likely the debts to the Government of the United States will be eventually transferred to the private investors of this country and they may be quite willing that payment shall never be made. The investment fund of the world is a common reservoir, or should be.

It is not in the interest of the industries of the United States that the interest upon this indebtedness or any of the principal should be collected at an early day. The attempt to gather up exchange on the United States under present conditions, for the purpose of making such remittances, would send that exchange to a higher premium and create a further handicap upon American exports in all markets.

No Payments Yet On Principal.

Statements have appeared in the newspaper recently conveying the impression that Great Britain and France had begun payments upon the principal of their indebtedness to the United States. This is not so. The payment of $7,500,000 stated to have been made by France and $22,000,000 by Great Britain in each case represent an adjustment of accounts, and are not to be interpreted as the beginning of a series of payments upon the principal of the indebtedness. Obviously, it would be a great hardship for these countries to begin such payments at the present rates of exchange, and they certainly would not do it of their own

choice, nor would the United States Government require it.

The total credits which have been granted by the United States Government to foreign governments, as of the close of business September 16, 1919, were as follows:

Belgium	$ 343,445,000.00
Cuba	10,000,000.00
Czecho-Slovakia	55,330,000.00
France	3,047,974,777.24
Great Britain	4,277,000,000.00
Greece	48,236,629.05
Italy	1,619,922,872.99
Liberia	5,000,000.00
Roumania	25,000,000.00
Russia	187,729,750.00
Serbia	26,780,465.56
Total	$9,646,419,494.84

All interest payments have been made up to the latest interest date, except in the case of Russia.

The Foreign Exchanges.

The foreign exchanges have been erratic during the past month, with a general downward tendency. Sterling (British) has not fallen below the previous low mark of $4.12¼, but has been within a fraction of a cent of it, while francs and lira have been lower than ever before. Paris francs touched 9.24, Belgian francs 9.02 and Italian lira 10.17 to the dollar. The German mark touched 3.10 cents and the Austrian kronen 1.40 cents. The table of exchange rates is as follows:

	Unit Value	Ex. rate Aug. 27	Ex. rate Sept. 24	Discount from mint par
Canada	1.00	.9606	.9675	3.7%
Germany	.2382	.0500	.0450	81.1%
Italy	.1930	.1043	.1013	47.5%
Belgium	.1930	.1199	.1163	39.7%
France	.1930	.1250	.1176	39.0%
England	4.8665	4.2400	4.1825	14.0%
Switzerland	.1930	.1766	.1795	7.0%
Holland	.4020	.3712	.3750	.67%
Denmark	.2680	.2175	.2175	18.8%
Norway	.2680	.2310	.2340	12.6%
Sweden	.2680	.2440	.2450	8.6%
Spain	.1930	.1910	.1898	1.7%
Argentine	.9648	.9625	.9660	⅛%*
Japan	.4885	.5100	.5100	4.4%*

*Premium.

When foreign purchasers of American goods convert their currencies into American drafts at the above rates the premiums they must pay are larger than the discounts here shown. Thus is the case of Italy, the premium for an American draft is nearly 100 per cent., and the cost of American goods increased to that extent.

It is still a source of wonder how trade goes on, at the rate shown by the customs report for the month of August, but it must be assumed that private credits are being granted for much of it and that a considerable volume of securities are coming to this country. It is known that there has been buying of Japanese bonds in the hands of British and French holders, and that American railroad bonds are still coming back from all European markets. Moreover the United States Government is still making loans to the allied governments under the $10,000,000,000 authorization. The total of advances actually made to June 30, 1919, was $9,102,285,015.56, and about $300,000,000 has been advanced since June 30. Nobody is able to account definitely for the volume of exchange that is absorbed.

There is a steadily increasing volume of reports from American exporters who are finding their trade opportunities curtailed by the exchange situation. The railroad equipment manufacturers could do any amount of business with Government railways if exchange was on a normal basis. Contractors for reconstruction work in France could do business under normal conditions, but although winter is drawing near little is being done in rebuilding the ruined towns.

French and Belgian Trade.

A cable message from Paris dated September 16, told of an incident in the Chamber of Deputies, when in the course of the debate over the peace treaty the subject of exchange was touched upon. The dispatch says:

> At the word "exchange," J. L. Barthod, former Foreign Minister, and L. J. Puech, former Minister of Public Works, demanded a statement from Louis Klotz, Finance Minister, on what they termed the extremely precarious condition of exchange. This demand was supported by numerous other Deputies.
>
> M. Klotz said the exchange situation was due to France permitting free importations." "The only remedy," he said, "is to show America and Great Britain that we can go to other countries with a growing volume of colonial and national productions. Otherwise exchange will continue to rise."
>
> M. Cemene said the remedy was to cease buying from the United States and Great Britain and to buy in Germany, where exchange favored France.

The same peculiar situation exists in Belgium. All reports from there say that reluctant though the Belgians are to give patronage to Germany it is practically unavoidable. An instance which illustrates the situation has developed in New York within the past month. A Belgian corporation having an investment to make in Mexico was in the market for machinery. The contract went to a German firm at a net cost only 35 per cent. of the competing American bid, the controlling factor being that Belgian money is worth a premium over German money but is at a heavy discount in American money.

Our own branch in Brussels, writing in August, said of this situation:

> "The increase of the rates of exchange against Belgium has brought about a condition whereby the purchase of raw materials and finished goods from America and England is being greatly hampered. The prices quoted in dollars and pounds is not prohibitive, but when converted into Begian francs at 59 per cent in-

crease over the normal exchange for dollars (rate of 8.35 existing August 9) and 40 per cent increase on the pound (rate of 35 for August 9), purchases on the part of Belgian buyers were being widely discontinued.

"This was so, especially in view of the fact that in some cases the German houses were sending quotations into Belgium which when converted into marks at the current rate of exchange, i.e., 44 to 45 centimes per mark, prevented Belgian merchants from giving orders for American and English goods.

Regular Trade Suffering.

It is not simply a matter of preventing America from getting reconstruction contracts in Europe. The regular established business is suffering. Even though Europe continues to buy food and clothing materials, which it can get nowhere else and must have, we are losing our trade in competitive lines. We are on the very peak of the world. We have a brief monopoly of certain necessaries and raw materials, but every passing month will reduce the scope of that monopoly. A buyer will shop around from country to country until he can find somebody who can supply his wants, and the exchange situation will favor every country over the United States.

Our Trade With Canada.

The largest foreign buyer of American products after Great Britain is Canada. Our Canadian customers thought the conditions were hard last year when American exchange was at a premium of 2 per cent., but of late it has been 5 per cent. Greenshield's monthly review, Montreal, for August discussed the bearing on Canada's trade as follows:

The further demoralization of all European Exchanges at New York has been accompanied by a new decline in Canadian exchange. Our attitude to this, as to the depreciation in the pound sterling, is that it is a matter of greater concern to New York than to London or Montreal. *The Review* has consistently taken the stand that, while anything that interrupts the even flow of commerce is an evil, it is not an unmixed evil that the exchanges should swing against Canada for the time being. A premium of 5 per cent on New York funds at Montreal operates directly to the advantage of every producer of Canadian goods with a surplus to sell abroad. It operates conversely as a deterrent to buying from abroad goods that could just as well be produced in Canada. As a direct incentive to home industry it is as important as so much added to a customs tariff, and in the case of Canada has this further advantage that our dependence on outside sources of raw materials is limited.

Our position is in many respects the reverse of the position in Europe. There, the problem is largely one of accumulating from abroad supplies of raw materials to be converted into manufactured goods.

Our fortunate position is this, that, outside of a few essentials such as cotton, Canada has within her own boundaries all the resources, in foodstuffs to feed her population and in raw materials to supply her industries, necessary to making her self-contained. Some of these resources have lain dormant because of the ease with which purchases might be made in other markets in other days when credit on favorable terms could be had for the asking. Raw materials, too, have been exported, and the finished goods made from these materials imported, to the sacrifice of profit that should be retained within the country.

It is now a matter of every-day record that the pinch of circumstances represented in the high rate of New York exchange is directing Canadian energy and initiative to the fuller development of the productive capacity of the country in respect, not only to natural resources, but also to their conversion into finished materials. The profit in both cases is automatically increased by the exchange situation. It was the embargo on exports of pulp wood cut on Crown lands that gave impetus to the great development of the pulp and paper industry in Canada in the past ten years. In a modified form the premium on New York exchange is to-day operating as a similar embargo, restricting the purchase from abroad of goods for which the materials and the labor are available at home. No merchant is contracting lightly for goods in foreign markets without first canvassing the possibilities of supplying his requirements here.

Credit Negotiations.

There have been no developments of noteworthy importance during the past month. The Edge bill, to charter banking corporations for foreign operations has passed the Senate and is before the House Committee. No doubt its enactment will give some assistance, by enabling particular lines of industry to co-operate in distributing debentures based on foreign securities, and localities to take similar action in support of their home trade. But the best judges of the situation believe that adequate relief can be given only by a comprehensive plan, under which one kind of security, based upon common collateral, shall be offered in all parts of the country, and the sale urged by an appeal in behalf of the public interest, bringing the old Liberty loan organization into use.

During the month Finland has obtained a credit for £6,000,000, or $30,000,000 in London with the understanding that the proceeds will be expended there. Negotiations for similar accommodations are pending in the United States.

A loan to Belgium is pending, and will be brought out shortly. The amount of the offering will be $50,000,000.

Implement and Vehicle Manufacturers Association.

The Implement and Vehicle Manufacturers Association of the United States, meeting in Chicago in August, passed the following resolutions:

"Whereas, prior to the recent war exports of American made agricultural implements to Europe had been growing satisfactorily and had reached such proportions as to constitute an important element of this country's manufacturing industry; and

"Whereas, the governments of Great Britain and Canada are reported to have made substantial loans to European countries on the condition that a considerable part of such loans shall be used in purchasing agricultural implements manufactured in Great Britain and Canada; and

"Whereas, this policy is likely to result in a serious curtailment of the export trade of the United States in agricultural implements;

"Now, Therefore, Be It Resolved, that representations be made by the National Implement and

Vehicle Association to the proper department of the Government of the United States and to the banking and other authorities now studying methods of financing American exports with a view to securing the early adoption of such a plan as will permit and assist the agricultural implement industry of the United States to re-establish itself in the markets of Europe on terms as favorable as those enjoyed by the manufacturers of other countries."

Federal Reserve Board Upon Foreign Credits.

Views somewhat at variance with those expressed in this publication on this subject are set forth in the September number of the Federal Reserve Bulletin. It discusses the foreign exchange situation at length, and seems to take the position that there is nothing to do but let matters take their natural course. Trade is abnormally out of balance, and exchange rates are exerting a normal and wholesome influence to correct this condition. Credits to support the exchanges will increase, or continue competition for our products, thus imposing high prices upon our own consumers. Foreign governments are indifferent to the high rates for New York exchange, and taking no steps to remedy them; existing facilities are ample to take care of real necessities.

The article is too long to be given in full in our available space, but we make the following excerpts upon principal points:

As long as circumstances make it necessary or advisable for the United States to sell a large volume of merchandise to Europe on credit, there must be shortages of supply in the domestic market unless industry is kept in a state of high activity and all hands are at work to increase output. Unless this is done resulting shortages will mean reduced consumption to be met either by voluntary saving on the part of the consumers, or compulsory saving through the process of high or even perhaps rising prices.

* * *

It is too frequently assumed by those complaining of the fall of foreign exchanges that trade on the scale of our recent exports is a thing desirable in itself and to be kept up by keeping up the value of foreign currencies in the American market. But when the export trade is considered in connection with the domestic trade it becomes clear, as already pointed out, that the source of much of the difficulty presented by the existing situation is the continued competition of the export demand and the home demand. The state of the foreign exchanges merely reflects the state of international trade. The correction of the exchange situation, so much complained of by those who look at the matter from the exclusive standpoint of the export interest, will, therefore, only find its natural and permanent solution through a reduction of our exports and an increase of our imports until they reach a point of approximate equilibrium.

The fact remains, however, that the present relationship of exports to imports—the volume of one being very large and the other comparatively small—is unhealthy and seriously disadvantageous to this country, looking at the situation purely from our domestic point of view.

Looking at the matter from another angle, it is evident that European countries find it difficult in the present circumstances to make purchases in this country, but the outstanding fact is that these countries have not seen fit so far to adopt any effective measures for the correction of existing rates of exchange. Ministers of several of these countries have looked with complacency upon the decline in exchange which tends to limit purchases here. This decline makes it possible for the countries affected to leave their commerce unrestricted without danger of having their nationals over-buy in our markets.

* * *

From the viewpoint of the lending country, i: e:. the United States after completing its own war financing the ability of our Government to assist foreign Governments without vast inflation and consequent danger to our own credit is problematic. The American people have subscribed liberally to war loans, but there is nothing to indicate that when they shall have closed the account by doing their part in such financing as remains to be done to liquidate the war bills they will be inclined to buy any considerable amounts of bonds of this Government for the purpose of further financing Europe.

The complete stabilization of foreign exchange could be effected only through unlimited advances to foreign countries, advances against which those countries will draw as their needs require. As drafts are drawn and sold abroad, the proceeds in foreign currency would go to the Governments concerned and become available for the purposes of those Governments. This process would give those Governments power to draw on this country indefinite amounts for unspecified or undisclosed purposes, and to meet these drafts our Government would have to sell additional obligations to its own citizens. Thus, to the extent of the credits extended, the burden of foreign war debts would be transferred to the shoulders of the American people, offset, of course, by such repayments on account of interest or principal as the foreign Governments might make from time to time; but even if ultimately fully offset, our own Government obligations must still in the first instance be marketed.

* * *

There is no reason to doubt that private initiative, supplements by such facilities as governmental agencies are authorized to make under existing law, can deal effectively with the present situation.

* * *

Credits extended abroad and foreign securities purchased must in nearly all cases run for periods beyond the limitations of ordinary banking credits, and banking resources can be safely utilized to a limited extent only in giving the accommodations now needed abroad. Appeal must be made to those who are in a position to purchase securities for investment and pay for them with funds accumulated to their credit in bank.

That the exchanges are in an abnormal state of course is true, and that ultimately they must be brought back into balance by a decrease of exports or increase of imports or both. But is there not a good reason why our exports to Europe during the year or two following the war should largely exceed our imports from there, and should we not wish it to be so? Is it not in the interest of both parties that it shall be so? Will not the return to normal trade conditions be hastened by selling the people of Europe the equipment and supplies they need to restore their industries to operation? Isn't it a little early to apply the doctrine of laissiz faire (let alone) rigidly to the economic conditions of Europe?

It is true that in England the high cost of American exchange is commented upon by some as not on the whole to the disadvantage of that country, but the situation is different on the continent. England suffered little injury to her productive industries by the war; they are in condition to run and compete with us on the continent and elsewhere. The devastation was on the continent. The ruined workshops, empty factories and wrecked railroads are there. It sounds almost like cruel satire to suggest of France and Italy, with coal at $100 per ton, and unobtainable at that, and of Belgium and Poland, that they want credit in indefinite amounts for "unspecified or undisclosed purposes." The fact that these people continue to buy under existing conditions shows how desperate are their needs. They are not discussing theories of international trade at this time; they are trying to get tools for their people to work with, copper, cotton and and other materials for their industries, locomotives and cars for their railroads; they are trying to avert starvation and anarchy until they can have some products to offer in the exchanges.

Production the Remedy for High Prices.

The answer to the argument that European buying will keep prices high to our consumers is that the surest way to bring down prices everywhere is by increasing production all over the world. Textile mills in Italy, Poland, Bohemia, Germany, Belgium and France are idle for want of cotton, and the skilled operatives are idle, thus contributing to a world shortage of cotton goods. Perhaps their buying would increase the price of raw cotton, but it would lower the price of cotton cloth in all markets. The price of cotton cloth is not regulated by the price of cotton so much as by the supply of goods. The cotton mills of this country cannot consume our cotton crops or supply the world demand for cloth. Their consumption of cotton this year is running a million bales behind last year, and our available supply of raw cotton is the largest in many years.

Moreover, isn't there a possibility that our exports may decline so rapidly as to give us something to think about besides relieving consumers from high prices? It is desirable to get back to normal trade conditions abroad and at home, but the normal and humane way to get back is by the increase of production all over the world, and our interest and duty both require that we cooperate to that end.

Upon one point there is full agreement. For the most part the credits required by Europe are of necessity larger than good commercial banking practice permits. They must be carried by investors.

Railway Partners or Creditors.

As we have pointed out in previous issues of this Bulletin, the railroad problem will be solved when means are found to attract capital in the quantity required to keep railway facilities abreast of the demands of a rapidly growing commerce and population. But safe financing requires that there shall always be a proper ratio between bonded debt and capital stock, and the railroad problem will not be solved in a sound financial way if it merely restores the ability of the railroad corporations to borrow money more freely. New partners are needed more than fresh creditors.

In 1900 the capital stocks of the railways were in excess of the amount of their debt but in 1917, 60% of the capitalization was in the form of debt and only 40% represented by stock, the excess of bonds being no less than $3,200,000,000. For a number of years this increasing preponderance of debt in railway capitalization has been noted with apprehension. As the railroad situation has become increasingly involved there is danger that, in any adjustment, the importance of establishing a proper financial structure may be ignored.

Stock Issues for Cash.

During the decade terminating in 1910, the level of security values was generally high and railway credit was good. Twenty of the leading railroad systems issued in that period more than $1,500,000,000 of new stock for cash at par or higher. The public probably little realizes what a large volume of stock was issued during this period of expansion. Following is a table showing the amount of new stock sold for cash, and the ratio of such stock to the total present outstanding common stock issues. This table, it should be clearly understood, shows stock sales since 1900 only and is by no means a complete list, nor does it include stocks which we believe to have been legitimately issued against adequate property values.

	Common Stocks Issued for Cash at Par or Better Since 1900	Ratio to Total Common Stock Issues.
Baltimore & Ohio	$107,300,000	71%
Boston & Maine	11,800,000	30%
Chicago & Northwestern	116,000,000	80%
Chic. Burlington & Quincy	12,600,000	11%
Chic. Milwaukee & St. Paul	69,200,000	60%
Delaware & Hudson	8,800,000	21%
Great Northern	118,000,000*	56%
Illinois Central	49,200,000	45%
New York Central	122,700,000	55%
New York, New Haven & Hart.	146,200,000	82%
Pennsylvania	350,000,000	70%
Southern Pacific	75,700,000	28%
Union Pacific	126,000,000	57%

* Preferred Stock. No common outstanding.

These figures will doubtless surprise those who assume that railroad stocks are mostly

water. In a recent discussion of the value of railroad property we expressed the belief that the carriers as a whole are not overcapitalized. A similar belief was voiced in the hearings last month before the House Committee on Interstate and Foreign Commerce by one who served twenty years with the Interstate Commerce Commission and later as a member of the Public Service Commission of the State of New York, Mr. Martin S. Decker.

"Personally, I think very few roads, as they stand to-day, are overcapitalized.

"The Erie road used to be called a horrible example. That road has made so many contributions from income to the capital account in the past dozen years, paying, of course, no dividends, that it may be said to have practically changed the water in its capitalization into actual tangible property.

We know that roads like the New York Central and Pennsylvania are not overcapitalized. The commissioners who have dealt with those roads know that they are not overcapitalized. I know that the New York Central line from New York to Albany alone, on the east side of the Hudson River, with all its great terminal properties in New York and its three and four tracks to Albany and its Albany terminal—I know you could not reproduce that property to-day for the total capitalization of the New York Central, before it took in the Lake Shore. I make that statement advisedly, and I am sure it can be proven. It would take 10 years to build it, in the first place."

Effects of Money Rates.

Since 1910, very few railroads have been able to sell their stocks. This has been due in part to an advance in the level of interest rates which has depressed the prices of securities, and it is of course out of the question for a railroad to sell new stock when its outstanding isues are already quoted below par. Probably this factor of higher money rates has had more to do with the inability of railroads to continue financing themselves with stock than is generally appreciated. During 1908, which was a year of extremely low money rates, the Illinois Central Railroad Co. sold $14,000,000 of its stock at par. The price in the market at that time was $135 a share; the company was earning slightly less than $10 a share and was paying $7 in dividends. In 1917, the company earned $14 a share and paid $7 in dividends, but the price of the stock fell below 86. This low price in the latter year must be attributed not to impaired earnings but to a much higher level of money rates, and the disturbed financial conditions following our entrance into the European war.

Diminished Earnings.

Diminished earning power resulting in waning confidence among investors, has been a more potent factor in preventing the financing by stock. The ratio of net operating income to the book cost of property is the best yardstick available to measure the state of railroad credit. Using this yardstick it appears that in the years 1901-1910 inclusive, the railroads were earning about 5¼ per cent. on their investment. Only in the post-panic years 1904 and 1908 did the return go below 5 per cent., and with the exception of 1908, there was very little mileage in the hands of receivers. After the adverse decision of the Interstate Commerce Commission in the 1910 rate case, net earnings began to shrink. During the three years 1913-14-15, the roads received less than 4½ per cent. on their investment, and in consequence there were over 40,000 miles of road operated by receivers.

Because of the light which they shed on railroad financial history in the past fifteen years, we reproduce the Interstate Commerce Commission's figures showing the ratio of net operating income to the property investment.

1902	5.02%
1903	5.19%
1904	4.83%
1905	5.10%
1906	5.58%
1907	5.61%
1908	4.89%
1909	5.38%
1910	5.68%

In 1910 the railways lost the power to advance rates and the subsequent record shows clearly that they did not receive adequate revenues.

1911	4.92%
1912	4.69%
1913	5.01%
1914	4.12%
1915	4.18%

A pronounced change for the better took place in 1916 and 1917 but this improvement was not permanent enough to restore credit.

Experiences of Baltimore & Ohio and St. Paul Railways.

Since 1907 the railroads have provided new facilities at an aggregate cost of over 5½ billion dollars. The price to the companies of raising this money must have averaged well over 5 per cent. and yet the investment has netted much less. Specific illustrations may bring this fact out more clearly. The Baltimore & Ohio is one of the great eastern trunk lines and one of the oldest railroads in the world. Between 1907 and 1917 it increased its facilities for public service at a cost of $125,000,000; but after making this investment the owners of the property found that their net operating income was nearly $2,000,000 less than it was before. In 1900 the Chicago, Milwaukee & St. Paul Railway Co. supplied property for the benefit of the public of a cost of $218,000,000, and it carried over its lines 8,600,000 passengers and 17,500,000 tons of freight. In 1917 it carried 15,500,000 passengers and 38,500,000 tons of freight, the railroad property then representing an investment of over $600,000,000. To finance the expansion of the plant

the company sold since January 1, 1900, nearly $80,000,000 of preferred stock and over $69,000,000 of common stock at par or higher; and in addition to the sale of this $149,000,000 of stock, the proceeds of the sale of $232,000,000 of bonds have gone into the property. Although their railroad is performing twice as much public service its owners have suffered serious losses. In 1900 the preferred stock was selling as high as $188 a share and receiving 7 per cent. dividends. The common stock was selling at $145 a share and paying 5 per cent. dividends. Since 1917 neither class of stock has been in receipt of a dividend and the preferred sells at 63 and the common at 43.

Under such conditions it is not altogether surprising that investors are somewhat reluctant to take partnership risks in an enterprise so hampered.

Security Values.

The prices of railroad bonds in many cases are now at the lowest levels in twenty years. Issues protected by abundant stock equities and the obligations of companies receiving rentals from the Government largely in excess of fixed charges, are nevertheless selling at prices to yield from 7 per cent. to 9½ per cent. Even these yields do not attract many buyers although industrial stock issues are being currently placed on the market and rapidly absorbed.

The present price level of railroad securities reflects in large measure the apprehension of investors regarding the future. The President has announced that the roads would be returned to their owners at the end of the year. If no legislative action is taken before that time the Federal guaranties will terminate on that date. Of the 162 carriers under Federal control, only 20 have earned their standard return so far this year, while 58 are not even earning operating expenses. The Pennsylvania, for example, is earning only 21 per cent. of its compensation; the Chicago, Burlington & Quincy only 59 per cent.; the Atchison, 66 per cent. For the first seven months of 1919 the railroads as a whole earned $235,000,000 of net operating income, which is $240,000,000 less than the rental payable by the Government for that period. To be sure, improvement has recently been recorded. In the month of May, the roads earned 51 per cent. of their standard return, in June, 64 per cent.; and in July 100 per cent. We believe it unlikely that the President will return the railroads to their owners this year should Congress fail to agree on remedial legislation. It is difficult to exaggerate the financial consequences of a return of the roads without protective measures of some character.

The Cummins Bill.

To safeguard the situation the standard return should be continued in any event for six months, and preferably for a year. The roads cannot be made self-supporting by Congressional fiat. Rates must be readjusted and such readjustment should be undertaken gradually. In the bill which Senator Cummins introduced, it is proposed that the standard return shall be continued for four months from the date that the bill becomes a law, during which period the Interstate Commerce Commission is required to establish rates which shall give the carriers a fair return upon the value of their property. Rates, according to this bill, shall at all times be just and reasonable. In determining them the Commission must take into consideration the interest of the public, the shippers, wages of labor, cost of maintenance and operation including taxes, a fair return upon the value of the property, and also the requirements for additional capital to enable to carriers to perform adequately their duties to the public, and the conditions under which additional capital can be secured. All these elements should certainly be taken into consideration but investors will be guided by the action of the Interstate Commerce Commission in construing such terms.

The Objection to a Fixed Return.

Under the rate making programs suggested by the National Transportation Conference and the National Association of Owners of Railroad Securities, the Interstate Commerce Commission is required to make rates which will yield as nearly as possible 6 per cent. on the aggregate property investment accounts of all the railroads. As both these plans provide for an excess profits tax on earnings of individual carriers in excess of 6 per cent. the net return to the railroads as a whole is estimated to be about 5½ per cent. If railroad credit is to be stabilized this is certainly the minimum return on which the public, in the light of experience, can expect capital to be furnished freely to the railways. In the Cummins Bill it is provided that the Government shall recapture all earnings in excess of a fair return. This we believe to be a very serious mistake. To set a dead-line above which profits shall never go, is a sure way to impair, if not destroy, the enterprise which has produced the magnificent net-work of railways now serving the country. The Interstate Commerce Commission itself has stated,—"We need the best of service. Our railroad management should be the most progressive. It should have wide latitude for experiments. It should have such encouragement as would attract the imagination of both the engineer and the investor."

The Cummins Bill also provides that after seven years if the railroads have not worked out consolidations among themselves, the Railway Transportation Board (proposed in the Act) shall forthwith proceed to group the roads into consolidated systems of not more than 35 and not less than 20. We view with considerable apprehension the practical results of the adoption of such a policy. Needless to

say, it introduces another element of uncertainty for the investor to face at a time when uncertainties should be eliminated rather than multiplied.

The Cummins Bill is frankly tentative and amendments to it have already been suggested. In its present form it will not solve the railroad problem but with suitable amendments it can be modelled into a sound measure of remedial legislation.

The Security Market.

During the month of September the security market was dull with gradually declining prices, particularly in rails and utilities. Foreign government bonds were steady, but the outstanding feature of the month was the activity in United States Government bonds. During the early weeks of the month prices on the Liberty and Victory issues fluctuated through a narrow range of quotations, but during the last half of the month these issues became very active with substantial advances being recorded in practically every issue.

United States Government Issues.

The advance in the Liberty issues was sensational. The First 4¼s during a period of about one week, advanced from 94.90 to 95.30; the Second 4¼s, from 93.16 to 94.28; Third 4¼s, from 95.16 to 96.06; Fourth 4¼s, from 93.18 to 94.04, while the 3½s broke through par for the first time since October, 1918, reaching on September 23, 100.08. The banking houses report a large investment buying of these issues, but the real strength of the market is credited to the buying by the Treasury Department. According to the official figures issued by the Treasury Department, the supply of Liberty bonds has been reduced about $717,500,000 as the result of purchases for the 5 per cent. sinking fund and payment of estate taxes. It is estimated that by the end of the current bond purchasing year, May 9, 1920, the supply of outstanding war issues will be reduced by over $1,000,000,000. The official figures show that of the four Liberty Loans, amounting to $16,936,995,367, on August 31, 1919, there were outstanding $16,219,457,817. By adding the total amount of Victory issues, $4,500,000,000, to this figure the total war loans of the government reaches the figure of about $20,700,000,000. For some time past bankers have been commenting upon the attractive yield of the government issues, which have ranged from 3½ per cent to 4.90 per cent, and investors are apparently beginning to realize that these bargain prices will not continue for an indefinite period.

New Corporate Financing.

New issues during the month have been in restricted volume and for the greater part in the form of preferred stocks. The larger preferred stock issues include $9,866,100 Proctor & Gamble 6% Stock at 100; $10,000,000 Firestone Tire & Rubber 7% Preferred Stock at 100; $15,000,000 B. F. Goodrich Company 7% Preferred Stock at 104½ and $15,000,000 Willys Corporation 8% Preferred Stock at 100. From September 1 to September 24 about twenty issues of preferred stocks in the amount of $1,000,000 or more were offered to the public, the total par value aggregating $75,000,000. The large corporate issues of bonds or notes were $50,000,000 American Telephone & Telegraph Co. 6% Notes at 99¼ and interest to yield over 6.25%; $15,000,000 New York Central 6% Notes due September 15, 1920, which were largely over-subscribed at 99⅝ and interest, to yield 6.40%, and $5,500,000 Chicago, Rock Island & Pacific one-year 6% notes.

The Municipal Market.

The municipal market during the early weeks of the month was inactive with a narrow fluctuation in prices. Toward the close of the month, however, the activity in the United States Government market seemed to be reflected in municipals and dealers generally reported a wider interest in tax exempt issues. The principal offerings of the month were:

$ 500,000	Chester County, Pa., 4% Bonds on a 4.20% basis
5,025,000	Cleveland, Ohio, 5% Bonds on a 4.60% basis
995,000	El Paso, Texas, 5% Bonds on a 4.75% basis
1,092,000	Essex County, New Jersey, 4¾% Bonds on a 4.40% basis
3,450,000	San Antonio, Texas, 5% Bonds on a 4.80% basis
3,575,000	South Dakota 5% Bonds on a 4.70% basis
807,000	Tehama County, California, 5% Bonds on a 4.80% basis
1,097,500	Yonkers, New York, 5% Bonds on a 4.30% basis

The combined average of forty active issues as reported by the Wall Street Journal on September 24, 1919 was 81.56, compared with 82.21 on August 24, and 81.96 on September 24, 1918.

THE NATIONAL CITY BANK OF NEW YORK

NOTE.—To comply with numerous requests the discussion of Andrew Carnegie's career which appeared in the September Bulletin has been printed in pamphlet form, and will be supplied at a charge of $1 per hundred copies.